

# Wage & Hour Insights

Guidance & Solutions for Employers



## Entrepreneurs Beware of Personal Liability for Wage & Hour Violations

By [Mike Warner](#) on June 09, 2011



Is Groupon's June 3 announcement of its intent to launch an IPO a sign of another looming ["tech bubble"](#) or an ["entrepreneurial renaissance"](#)? Either way, entrepreneurs seeking to ride the next wave of technological innovation must be aware of the significant personal risks arising from failing to comply with wage and hour laws.

Can't pay your suppliers or rent on the swanky new office space you rented to impress potential venture capital investors? If the business fails, at least the budding entrepreneur might be able to avoid or limit personal liability for these unpaid debts. Not so for unpaid wages owed to employees.

Under the FLSA and most state wage and hour laws the entrepreneur will be personally liable not only for the amounts owed to employees, but also for attorney's fees, liquidated damages, statutory penalties and in extreme cases could be subject to criminal prosecution.

For a start-up company, the lack of cash flow, the excitement of being part of the "next big thing" and promises of future riches make it all too easy to overlook wage and hour compliance. Start-ups often unknowingly flout the most basic wage and hour laws through such practices as making everyone an "independent contractor," promising equity in lieu of pay that complies with minimum wage and overtime standards, or neglecting basic recordkeeping.

Entrepreneurs must remember that things have changed dramatically on the wage and hour front since the original "dot.com" boom and bust. Just as California has been a hot-bed of technological innovation, it also has been the originator of the wage and hour litigation "boom" that has swept across the country in the last 10 years. Federal and state regulators have also dramatically increased enforcement efforts, and are engaging in [public relations campaigns aimed directly at tech savvy employees](#) to increase employee awareness of employer wage and hour obligations.

The lesson for entrepreneurs: obtaining competent legal advice on wage and hour compliance is as important as finding the right corporate lawyers and consultants to help you with raising venture capital and planning for your IPO.

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